GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:5168
ANSWERED ON:20.04.2001
TAX ON LIC POLICY
A. VENKATESH NAIK;VILAS BABURAO MUTTEMWAR

Will the Minister of FINANCE be pleased to state:

(a) whether the Government are considering to lower the tax on life insurance policy to increase the spread of the insurance cover in the country;

(b) whether the expert committee set up to study taxation on life insurance sector has also asked the Government to lower the tax on income of Life Insurance Policy holders from 12.5 percent to 5-7 percent; and

(c) if so, the details of the recommendation made by the Expert Committee and the reaction of the Government thereto?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (GINGEE N. RAMACHANDRAN)

(a), (b) & (c) : An Expert Committee on Taxation of Life Insurance Sector was constituted by the Government during the financial year 2000-2001, inter alia, to recommend the taxation structure in respect of profits of life insurance business. The Committee has since submitted its report and has, inter alia, recommended that-

(i) the basic method for determination of taxable income in respect of the life insurance business should be the `valuation surplus` method;

(ii) the policy holders` share of surplus and the shareholders` profits (including the shareholders` share of surplus) must be separately assessed to tax;

(iii) the shareholders` assessable income should be fully taxed at the rate applicable to corporates; and

(iv) the policyholders` assessable income should be taxed at a comparatively lower rate. The report of the Committee is under examination.